CHAPTER 23

FINANCES

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RESOURCES

EMERGENCY FUNDS

Access to money and other liquid assets is essential during an emergency. Consider the many situations that occur in Foreign Service life when funds are needed quickly and in substantially greater amounts than usual: evacuation; death or disability of the employee; death or illness of a family member necessitating travel to the United States; medical emergency; paycheck problems; hostage-taking or kidnapping; breakdown of communication systems with the United States; change in family structure or geographic separation of family members for education, career, or personal reasons.

Short term. Experienced people recommend having immediate access to cash in amounts equal to two weeks worth of living expenses for the family. Those posted abroad should keep travelers checks in dollars, some U.S. currency, and small denominations of the local currency to pay for transportation, meals and lodging, and travel expenses to a safehaven post in the event of evacuation.

Longer term. Liquid assets are invaluable sources of funds in an emergency. Examples of liquid assets are U.S. Government bonds or other securities, money market funds, lines of credit with banks or credit unions (which do not depend on the employee to sign for loan), credit cards in your own name, credit rating sufficient to negotiate a loan, cash value of insurance policies, and direct deposit of employee's paycheck into a U.S. account (joint) or allotment to an individual account from employee's paycheck. Experts recommend access to funds equal to living expenses for at least three months.

State laws vary on joint checking and savings accounts and on safe deposit boxes. Many states close joint accounts and safe deposit boxes in situations in which a lawsuit is pending, one member is permanently disabled, or one of the signatories dies. This could mean limited access to funds and important papers, including securities and bonds or life insurance policies kept in safe deposit boxes. Some states close joint bank accounts until a will is probated.

Foreign Service families should plan in advance for access to funds—both for the short term and for the long term—by all adult family members. Look into state laws as well as restrictions imposed by banks and security firms. Consider using a Power of Attorney to handle some situations. In other cases, separate funds may be required due to state laws governing access. See below for services several banks offer that can assist Foreign Service families in times of need.

BANKING

To open a checking or savings account in the District of Columbia, Maryland, or Virginia, you need only a driver's license or passport and a Social Security number. Services, rates, minimum deposits required, and cost per check vary widely. In choosing a bank shop around for the least expensive and most convenient service. Having a separate account has advantages, i.e., in case of death or disability of one spouse or in case of need to establish a separate credit rating. A line of credit can be established with a bank or credit union that is almost the same as a pre-negotiated loan and can be of invaluable help in emergency situations.

Spouses, children, and other immediate family members overseas and at home may open accounts by mail with the State Department Federal Credit Union (SDFCU) with a $1.00 minimum deposit. SDFCU is a not-for-profit, federally insured institution. Credit union depositors are called shareholders because they are part of a member-owned institution. All funds available after operating expenses and government-required reserves are returned to members in services or dividends. Savings and checking accounts, certificates of deposit, and loans (including personal, automobile, education, and mortgage) are available.

Some services geared to the particular concerns of Foreign Service people include direct deposit, cable facilities, online banking, Power of Attorney, liaison program by volunteers at post, and family and student accounts for savings and credit. SDFCU also offers education loans under the federal Stafford Loan Program, and parent loans, payroll allotments and distribution to family member accounts, safe deposit boxes (at Main State and Alexandria), and automatic transfer of funds when prearranged. Finally, services include insured Share Certificates, LOANLINER® (streamlined loan system), share checks with overdraft protection, MasterCard credit card, MoneyLine (line of prearranged credit), Individual Retirement Accounts (IRAs) for wage earners and unemployed spouses, discount travel service (Quest International), SmartMove (nationwide real estate services), and Priority Assist Worldwide Auto-Buying Service. For overseas members, SDFCU has an *Overseas Service Guide* that highlights various convenience and electronic banking services. See contact information for SDFCU below.

The Lafayette Federal Credit Union (USAID) is familiar with the inherent difficulties of conducting financial transactions from around the world, and thus offers as many services as possible to make those transactions simple. Services that may interest Foreign Service personnel include the following: direct deposit (with preferential interest rates on most loans); payroll deduction; online banking; surcharge-free ATM locations; automatic funds transfer; worldwide wire transfers; family memberships; MasterCard (MasterCard Auto-Pay available); IRA and Certificate of Deposit accounts; REDI-CASH overdraft protection/line of credit; pre-approved loan system; Credit Union Service Organization that offers insurance programs, legal services, real estate services, and financial planning; traveler's checks/money orders. See contact information below.

Bank of America Military Bank offers State Department Foreign Service Officers and Specialists a number of special programs through their banking center in room 1442, Main State. The services include no minimum balance checking with direct deposit, unlimited check-writing privileges, online banking from anywhere in the United States or from any overseas post, no ATM charges at Bank of America ATMs or on U.S. military bases/posts overseas, credit cards, and unsecured signature loans. See contact information below.

SOURCES

State Department Federal Credit Union
1630 King Street
Alexandria, VA 22314-2745
(Room 1827, Department of State)
Tel: (703) 706-5000 for both locations
(800) 296-8882 - outside DC metropolitan area
(MasterCard information)
(800) 296-8883 - outside DC metropolitan area (Accounts)
Fax: (703) 684-1613
Website: http://www.sdfcu.org

Lafayette Federal Credit Union (USAID)
Room 3441
Department of State
Washington, DC 20520
Tel: (202) 466-4711 (State Department)
(301) 929-7990 (Kensington Branch)
(800) 888-6560 outside D.C. metropolitan area (Kensington Branch)
Fax: (202) 296-1930
E-Mail: memberservice@lfcu.org
Website: http://www.lfcu.org

Bank of America
Military Bank location
Room 1442
Department of State
Washington, DC 20520
Tel: (202) 624-4750
(800) 337-2324 (automated, not accessible from overseas)
Fax: (202) 785-2784
Email: milbank@bankofamerica.com
Website: http://www.bankofamerica.com/military

SAFE DEPOSIT BOXES

A safe deposit box provides an excellent, safe storage place for many important papers. The boxes are available at many financial institutions, including the State Department Federal Credit Union. You may need to shop around to find a box that is available immediately, or be prepared to put your name on a waiting list. Commercial establishments offer safe deposit services that are more extensive, but usually more costly, than those of financial institutions.

In some states the safe deposit box is sealed upon the death of one owner until the tax authority has assessed the financial value of the contents. You should determine whether this or any other restrictions on access apply to the box you rent. In general, one should not store unregistered property that belongs to others (such as jewelry or bonds issued “to bearer”) in a safe deposit box. Original wills should be left with a lawyer or some other trusted person. Cemetery deeds and letters of last instruction, needed quickly in the event of a death, should be kept in a safe, accessible place.

Some Foreign Service families add the name of a trusted friend or relative to the signature card for their safe deposit box while they are overseas, as do many retirees who travel often. Caution should be exercised if the relationship changes; in some states, the only way to remove a co-owner is to close the box.

CREDIT RATING

Everyone should have access to credit in his/her own name. You do not have access to credit established in another person’s name if that person is unable to sign for it. A Foreign Service spouse without personal credit might be placed in a difficult situation if the employee dies, is kidnapped, or is taken hostage. Credit card issuers can cancel cards even if there are other authorized users. Loans paid off by allotment from the employee’s salary may be called in if the employee resigns or dies.

How does an individual with limited or no income establish credit? The first step is to open an account at a bank or join a credit union in your own name. Then apply for a credit card (such as Visa or MasterCard), a line of credit such as the State Department Federal Credit Union’s MoneyLine or the Lafayette Federal Credit Union’s REDI-CASH, or a loan. Especially helpful to individuals trying to establish credit is the State Department Federal Credit Union’s Share-secured MasterCard through which a line-of-credit equal to an amount deposited in a Regular Share (savings) Account may be obtained. Similar services are extended to USAID personnel through Lafayette Federal Credit Union’s regular or Gold MasterCard program.

If an application for credit is turned down, the applicant has the right to know the reason. Any outside sources of information that prejudiced the application must be disclosed. If the applicant is not satisfied with the explanation, s/he should speak to the credit manager or department head.

For any joint account opened after June 1, 1977, the creditor is obligated by law to report credit information for each name on the account. If the account was opened earlier, determine how credit information is being reported. Request that it be reported for each name if it is not.

For the purpose of establishing a credit record, it is a good idea for a couple to take out major personal loans (auto, home, etc.) in both names even if one spouse is not employed. But because both parties would be liable for payment of the loan, it should be for something jointly desired.

Credit bureaus collect credit information from banks, stores, and businesses and sell it to requesting credit issuers. A good credit rating is an invaluable asset in times of transition or need. You can get a copy of your credit record by contact the credit bureau that serves your city or region. See below for contact information. Credit bureaus usually charge a small fee for this service. But if you have been denied credit by a credit issuer, the credit bureau must allow you to examine your file free of charge within 30 days.

If you find an error, the credit bureau must report this to any credit issuers that received your file within the previous six months. If the credit bureau does not accept your view of the situation, you have the right to place a statement of your version in your file.

SOURCES OF INFORMATION

Consumer Data Industry Association
1090 Vermont Avenue NW, Suite 200
Washington, DC 20005
Tel: (202) 371-0910
Website: http://www.cdiaonline.org

Equifax Service Center
Tel: (800) 685-1111
Website: http://www.equifax.com

Trans Union Corporation
Tel: (888) 503-0048
Website: http://www.truecredit.com
E-mail: service@truecredit.com

TRW National Credit Bureau Reports
Tel: (800) 493-2392
Website: http://www.truecredit.com
E-mail: service@truecredit.com

INVESTMENTS

The overall purpose of investing is to save and accumulate assets. Specific purposes of investing may include purchasing a home, educating your children, or providing for your retirement.

Almost anything you own—stocks, bonds, your home, a car—may be considered an asset. It is helpful to categorize your assets according to whether you are using or consuming them, or whether you are managing them to provide financial income or growth. Your car and household furnishings would belong in the first category—assets being used or consumed. A mutual fund would belong in the second category—assets providing a financial return. Ordinarily investing will involve only the second type of asset.

These days, it is probably best to consider your home as a consumable asset. Whether or not your home increases in value and might therefore be considered an investment asset will depend on your particular locale.

Making proper use of your checking account, savings account, and credit cards are proper parts of managing your money and budget in the short-term. Investing, by contrast, should generally be thought of as a long-term activity. Accumulating enough money to purchase a home or educate your children are good examples of investment goals that may take considerable time to achieve.

Types of Investments

There are numerous kinds of investment vehicles. Several of the most common kinds are described below.

Certificates of Deposit (CDs). CDs are certificates issued by banks for money deposited with them for set periods of time. CD maturities may range from three months to five years. CDs typically pay interest at higher rates than ordinary savings accounts, particularly when they have longer maturities. You will pay a penalty, however, if you redeem a CD before its maturity date. The Federal Deposit Insurance Corporation, an agent of the U.S. Government insures bank deposits, including CD's, for up to $100,000 per account.

U.S. Savings Bonds. Bonds may be purchased at banks or directly from the U.S. Treasury. Series EE Bonds currently pay interest that is adjusted periodically in response to market conditions. The smallest denomination of Series EE Bonds is $50. Interest may be deferred until the bonds are redeemed. Savings Bonds are an extremely safe method for investing but have little potential to provide for growth of your assets beyond taxes and inflation. Savings bond interest is, however, exempt from state and local taxes. In some circumstances, bonds may be redeemed tax-free if the proceeds are used for qualifying expenses of education or training.

Treasury Securities. The U.S. Government issues Treasuries. Treasury Bills are short-term securities with maturities of up to 52 weeks. Treasury Notes have maturities of 2 to 10 years, and Treasury Bonds have maturities from 10 to 30 years. Treasury Bills are an excellent way to invest money for short-term purposes, with little risk. Longer-term Treasury Notes and Bonds will offer higher interest rates but also expose the holders to possible capital losses as well as gains if they are sold prior to their maturity.

Stocks. A stock is a share of ownership in a company. As a stockholder you may receive dividends, which are a share of the company's profits, growth from increased value of the stock when you sell it, or both. A relevant concept is that of "total return," which is the combination of dividends received and capital gains or growth. Conversely, you may possibly not receive dividends or gains depending on the fortunes of the company.

Bonds. A bond is essentially an IOU issued by a company or governmental agency. When you buy a bond, you are lending your money to the issuer. In return, you receive bond interest for the life of the bond. Upon maturity, your principal, or the amount originally invested, is to be returned to you. Bonds are rated according to the creditworthiness of their issuers. U.S. Treasury bonds and those issued by large, well-established companies enjoy high ratings. Lower-rated bonds are sometimes called "junk bonds." These bonds pay higher rates of interest because of their issuers' relatively lower credit ratings.

Hard Assets and Collectibles. Gold, other precious metals, objects of art, baseball cards, and various other objects may be included in this category of investments. There are fairly well-established markets, including mutual funds, for investing in gold and silver. Gold is often considered an "inflation hedger" in investment planning in the belief that when inflation threatens the economy, the price of gold will rise because of its inherent value. Less credence is given to this theory nowadays, however, in part due to the complexity of global money markets. In general, investors should not enter this domain without solid knowledge of what they are doing.

American Depository Receipts (ADRs). ADRs are a convenient way to purchase shares of foreign companies. An ADR for a foreign company is created by a U.S. bank. The ADRs trade on stock exchanges rather than the foreign company stock itself. ADRs have the advantages of being written in English, paid for in dollars, and having dividend distributions, if any, paid in dollars. Securities of foreign companies may be purchased directly through brokers, either in this country or abroad, but considerable difficulties may be encountered in completing these transactions.

Mutual Funds. A mutual fund is an investment company chartered under federal law. Mutual funds pool the money received from investors and invest in various types of securities. The most common type of mutual fund is "open-end," which means its sponsor offers to sell and redeem shares on a continuing basis. "Closed-end" funds, by contrast issue a fixed number of shares that are then traded on markets like other securities. Mutual funds typically invest in stocks, bonds, and related securities. Funds accordingly vary in the degree of risk and reward they present to investors. At one extreme would be "aggressive growth" funds investing in new or other relatively speculative stocks. At the other extreme would be a fund investing in conservative bonds or Treasury securities. Investors should select the fund or funds best suited to their individual circumstances.

Traditional Individual Retirement Account (IRA). A Traditional IRA allows anyone under the age of 70 1/2 with earned income, to contribute up to $2,000 a year ($4,000 for joint filers) regardless of income level. The biggest benefit of a Traditional IRA is that your investment grows tax-deferred until you are required to begin withdrawing money at age 70 1/2. Another benefit of a traditional IRA is that your contributions may be tax-deductible. For example, even if you have a retirement plan at work, you may be able to deduct contributions to a Traditional IRA depending on your income level. Also, if you have a retirement plan at work and your spouse does not, the non-covered spouse can deduct his or her contributions. And, if neither you nor your spouse are covered by a retirement plan at work, your contributions are fully tax-deductible, regardless of income level. You should also be aware that IRS penalties may apply for money that you withdraw from your Traditional IRA prior to age 59 1/2. However, these penalties may be waived under certain conditions. For example, if you withdraw the money for eleigible higher education expenses, a first home purchase (up to $10,000) and qualifying medical or disability expenses.

Roth IRAs. A Roth IRA is an IRA that allows your investment earnings to grow tax-free. Anyone with a Modified Adjusted Gross Income (MAGI) of under $110,000 (or $160,000 for joint filers) can open a Roth IRA. The way it works is that you make after-tax contributions of up to $2,000 a year to your Roth IRA. In turn, you will not have to pay any IRS penalties or income taxes on the investment earnings at the time of withdrawal as long as the money has been in your IRA and funded for at least five years *and* you meet one of the following conditions: you are 59 1/2 or older; the money is used for a first-home purchase (up to $10,000 lifetime limit); the withdrawal is due to death or disability. Another strong feature of the Roth IRA is that withdrawal of earnings will be IRS penalty-free, but not tax-free, when used for higher education expenses even if made within five years. A final benefit of the Roth IRA is, unlike a Traditional IRA, you do not have to start making withdrawals when you turn 70 1/2.

529 Plan. A 529 plan is an investment plan operated by a state designed to help families save for future college costs. As long as the plan satisfies a few basic requirements, the federal tax law provides special tax benefits to you, the plan participant (Section 529 of the Internal Revenue Code). It is up to each state to decide whether it will offer a 529 plan (or possibly more than one), and what it will look like. Every state now has at least one 529 plan available. A 529 plan is usually categorized as either prepaid or savings, although some have elements of both. There are four main advantages to a 529 plan: You get unsurpassed income tax breaks; you the donor stay in control of the account; a 529 plan can provide a very easy hands-off way to save for college; finally, everyone is eligible to take advantage of a 529 plan, and the amounts you can put in are substantial (over $200,000 per beneficiary in many state plans).

Coverdell Education Savings Accounts. The Coverdell education savings account is a very attractive college savings vehicle for many people, including families that wish to save for elementary and secondary school expenses. Like a Roth IRA, a Coverdell education savings account allows you to make an annual non-deductible contribution to a specially designated investment trust account. Your account will grow free of federal income taxes, and, if all goes well, withdrawals from the account will be completely tax-free as well. You will need to meet certain requirements in the years you wish to make the contributions, and in the years to take withdrawals.

Annuity. In general, an annuity is an arrangement in which you contribute money now in return for receiving periodic or lifetime payments in your retirement. Life insurance companies issue annuities. The advantage is that earnings on amounts contributed are tax-deferred until withdrawn. However, restrictions apply to withdrawal of your money, and an IRA penalty is payable in most cases if the money is withdrawn before age 59 1/2. Fixed annuities earn specified amounts of interest and offer a wide variety of investment objectives.

Risk and Reward. Risk and reward are inextricably linked in investing. In simple terms, risk refers to the chance that you may lose some or all of the money you invest. Your tolerance for investment risk will be determined in part by your financial circumstances, including the overall level of your wealth and any discretionary assets. It may also be determined by your general tolerance for risk, e.g., whether you are more conservative or aggressive in your personal life style.

Your investments should be selected to provide the best mix of risk and reward possible. It is generally impossible to find an investment that may deliver a high return without also assuming a correspondingly high degree of risk. Bank certificates of deposit (CDs), for example, are very safe because they are federally guaranteed up to certain limits. However, CDs will not provide income much above the rate of inflation and taxes. CDs are therefore not an appropriate means to *increase* your assets.

The market value of investments may fluctuate in value over short-term periods. A stock market index will go up or down several points from day to day, sometimes without any obvious reason. When investing, however, you seek to take advantage of *long-term* trends that will, over time, increase the value of your assets. Investing, therefore, typically requires considerable patience on the part of the investor.

Investment Strategies

An optimal investment strategy might be described as one that combines maximum return with minimum risk. In practice, as indicated above, you need to plan your investments to provide the best mix of risk and reward as possible. Two particular strategies are suggested.

Time Frame. The first strategy is to plan your investments with an eye to the time frame of your investment objectives. Your choice of investments should be influenced by the timing of your objective. If you are investing for a need 10 years away, for example, you can afford to be relatively aggressive. A portfolio for this purpose might well include all or a substantial portion of stocks or mutual funds investing in stocks. With the long investment period, the chances are good that any unfavorable downturns in the stock market will have worked themselves out, and significantly positive results will have been achieved. This more aggressive, long-term type investment strategy might be suitable if you wish to save for a young child's college education, or if you are planning for retirement in 10 to 20 years or longer.

If investing for shorter periods, three to five years for example, you might combine a blend of 50 percent stocks and 50 percent bonds, CDs, or other similar income producing securities. Your expected return would be less, but your chance of losing significant amounts of money would be reduced as well. This type of strategy might be appropriate if, for example, you were saving money for a down payment on a home or planned personal travel in a few years. For periods of less than three years, your money should be mostly put into CDs, money accounts, or similar income-producing assets.

Diversification. The second recommended investment strategy is related; it is to diversify your investments in ways to minimize risk. The purpose of diversification is to reduce the risk of loss in your overall portfolio while still seeking significant investment returns. Diversification can be achieved by combining appropriate classes of securities that do not necessarily move in tandem with each other upwards or downwards.

A well-diversified portfolio, for example, might include small company stocks, large company stocks, bonds, and international stocks (or mutual funds embodying the same mix). If U.S. stocks rise, part of this portfolio would go up. If international stocks rise, that part of the portfolio would rise even if the U.S. stocks did not. These different types of securities will not necessarily rise or fall in value together. Diversification is not a perfect hedge against investment loss. However, it can help protect against large losses while still providing an opportunity for significant returns. By using techniques of modern portfolio theory, securities can be combined into portfolios whose collective risk is smaller than their individual components.

Mutual funds would be a good way for most individuals to carry out a diversified investment program. Mutual funds offer a degree of diversification not attainable with most portfolios of individual securities. Funds provide professional management, comprehensive reporting, and other valuable shareholder services as well.

Investment Returns. There are no assured returns from investments. One way to estimate the return from your investments is "The Rule of 72." In this rule, if you divide 72 by the average annual return from your investments, the result is the number of years it will take for your money to double. (This calculation assumes reinvesting any dividends and capital gains and does take taxes into account.) Conversely, if you divide 72 by the number of years until your money is needed, you will get the average annual return you must achieve with your investments.

Managing Taxes. For investment purposes, it should be kept in mind that income from dividends and interest is taxed at ordinary income rates, which may be as much as 35 percent for federal taxes. The maximum federal rate for capital gains has historically been lower.

All earnings from IRAs, the federal Thrift Savings Plan (TSP), and other tax-advantaged retirement plans are taxed at ordinary income rates when money is withdrawn. This is so whether or not any of the earnings were actually derived from capital gains. One implication for IRAs is that investments that produce earnings each year taxable at ordinary income rates should be placed inside IRAs whenever appropriate. Investments that produce capital gains, particularly on a less-frequent basis, should be invested outside IRAs.

Notwithstanding the nature of taxation of retirement plans, money invested in the TSP and similar plans offered by other employers should ordinarily be invested for long-term growth, particularly for younger employees. This means allocating a substantial portion of the funds to growth-oriented investments that typically produce much of their returns from capital gains.

SOURCES OF HELP

Information about investing may be found in numerous popular periodicals, books, media programs, and various investment-rating services. In addition to popular publications, such as *Money* and *Kiplinger's Financial Planning,* independent ratings of mutual funds, stocks and bonds and other specialized publications may be found in libraries. *Morningstar Mutual Funds* and the *Value Line Mutual Fund Survey* provide independent ratings of mutual funds. *Standard and Poors* publishes guides to stocks and bonds, and the *Value Line Investment Survey* also reviews stocks. IRS publications, such as *Publication 590* on IRAs, can be helpful. There are also numerous sources of information on the Internet.

For information on education IRAs, such as the 529 Plans and the Coverdell Education Savings Accounts, go to http://www.savingforcollege.com.

Some people will feel comfortable in handling their investments themselves. For assistance in managing your investments on your own, visit:

American Association of Individual Investors (AAII):
http://www.investware.com/aaii.stm

Others will want to engage a financial planner or similar advisor. When considering engaging such a person, inquire about his or her background and professional qualifications, and determine how much you will pay for the services. Foreign Service personnel overseas may find it particularly useful to engage the services of a financial advisor in order to help them plan and monitor their investment activities, as appropriate. For help in choosing a financial planner, check out:

Financial Planning Association
http://www.fpanet.org

or

Financial advisor and educator Ric Edelman (this is not an endorsement, but is provided for informational purposes only):
http://www.ricedelman.com

REAL ESTATE

Many Foreign Service people own or hope to own real estate. Careful planning and research can make a difference when you need to buy a home quickly, or manage rental property from overseas—situations that Foreign Service people commonly face.

If you are planning to buy a house on your return to the United States, consider getting in touch with a realtor in advance. The realtor should be someone recommended to you by a person whose judgment you trust. In order to help you effectively, s/he needs to know your housing requirements (number of rooms, special facilities, access to schools, and public transportation, etc.) and your financial data (income, assets, and liabilities). With this information, the realtor should be able to send you information on homes and types of financing that appear to fit your needs. This kind of advance dialogue will make you a more educated buyer, and will speed up the process of finding a home when you arrive.

Research the tax implications of each locality you are considering. Jurisdictions vary widely in the kinds of taxes they levy and in how they deal with residents who claim domicile elsewhere. When it comes to the actual purchase, some people take the precaution of having a lawyer read any contract they intend to sign. Preferably, the lawyer would be someone who normally handles real estate matters. Another kind of protection available to the buyer is title insurance.

Managing property you own from far away, especially from overseas, can be extremely difficult. Most people use the services of a property manager, or the management department of a real estate firm. It is important to locate a manager in whom you have confidence.

Obtain a written management contract that clearly spells out the manager's responsibilities. Include provisions in the contract for adequately supervising the property, making timely repairs, checking with you before making non-emergency expenditures, depositing rental income to your account promptly, and returning security deposits within a specified period after a tenant moves out.

Be sure your property manager will assume the obligation of working out any problems with a vacating tenant. The manager should inform you or your lawyer immediately if the tenant is uncooperative. Once a tenant leaves the area, it can be quite difficult to collect unpaid rent. If your tenant breaks the lease and moves out while you are away, s/he is still liable for the rent for the unexpired period of the lease or until you find a new tenant at the same or greater rental. As landlord, however, you are under a good-faith obligation to seek a new tenant.

A good management contract should be sufficient to allow the agent to take care of routine matters. In this age of improved communication there is no reason to leave a Power of Attorney (POA) for routine matters. If one is needed—for example, to refinance, then one can be sent for execution.

Most people use a pre-printed lease provided by the property manager or real estate agent. Read the lease over carefully. Some clauses are required by law, but many are a matter of private contract and can be changed to meet your special needs. For instance, Foreign Service families should have a cancellation clause to allow them to repossess the home if they are required to return to the Washington area. If you have to make use of the cancellation clause, be sure that you provide notice exactly as set out in the lease and that your notice is clear and understandable.

Other terms to consider for inclusion in a lease:

- What will remain in the house or apartment, and what will not.
- An established time limit for return of the security deposit after inspection by the owner or owner's representative. (Indicate that security deposit will not be accepted as the final month's rent.)
- An agreement that the house or apartment will be inspected by the owner's representatives at least twice a year.
- Special requirements such as lawn care, and names of companies to be used for maintenance and repairs (or requirement that realtor use reputable companies).

Some other steps to take before you leave:

- Provide the mortgage company, termite inspection company, insurance company (if paid separately from mortgage), service contract companies, and any others with the name and address of the person or firm who will be handling payments for you. If possible, have correspondence sent to both the management address and your overseas address. Most mortgage services can use dual mailing addresses, and this will prevent problems if the manager is slow in dealing with problems.

- Be sure that the tax bill will be sent directly to the person, firm, or bank that will handle your tax payment. Avoid the serious problems (such as sale of your home for nonpayment of taxes) that can occur when your tax bill is improperly addressed and does not get paid on time.
- Convert homeowner's insurance to fire and hazard (extended coverage, broad form). Request an owner, landlord, tenant (OLT) liability on the insurance policy.
- Provide the property manager with data on appliances (model, age, where purchased, service agreements or warranties). Disclaim responsibility for old appliances.
- Provide written instructions for tenant and manager, including location of fuse box and water cutoff and any special information about your home.
- Arrange for a friend or neighbor to check on the house periodically.

There are a number of tax considerations in owning and selling real estate. It is to your advantage to research this area thoroughly. There are many IRS publications that can help. Also, the *Foreign Service Journal* (published by AFSA) contains an annual tax update with information of particular relevance to Foreign Service taxpayers. If you plan to rent your residence while on overseas assignment, you should be aware that tax treatment can be quite complex. You may wish to seek advice before you go overseas. To review the AFSA tax guide, see http://www.afsa.org.

RESOURCES

National Association of Realtors
777 14th Street NW
Washington, DC 20005
Tel: (202) 383-1000
(800) 874-6500 (Publications)
Website: http://www.realtor.com/

The **American Association of Retired Persons (AARP)** has extensive resources, including free publications:

AARP
Fulfillment Services Unit
601 E Street NW
Washington, DC 20049
Tel: (202) 434-2277
Website: http://www.aarp.org

HUD Library and Information Services
Room 8141
451 7th Street NW
Washington, DC 20410
Tel: (202) 708-1420
Website: http://www.hud.gov

IRS Forms Distribution Center
P.O. Box 25866
Richmond, VA 23260
Tel: (800) 829-3676
Website: http://www.irs.gov

Your Federal Income Tax, No. 17
Tax Information on Selling Your Home, No. 523
Tax Information for Homeowners, No. 530
Rental Property, No. 527
Energy Credits for Individuals, No. 903
Tax Benefits for Older Americans, No. 554

AFSA's Foreign Service Tax Guide
Updated annually in the *Foreign Service Journal* (http://www.afsa.org/fsj/)
Most recent tax guide: http://www.afsa.org/tax_guide2002.pdf

RETIREMENT

Because many Foreign Service families leave the service early for professional, health, educational, financial, or personal reasons, pre-retirement planning is useful for everyone as a contingency measure. For those nearing retirement age, experts recommend three to five years of pre-retirement planning. Financial and estate planning, choice and location of future residence, life style and interests, post-retirement employment, volunteer activities, and anticipated medical services are all factors that employees, spouses, and their families should consider. For general information on retirement from the Foreign Service, see http://www.state.gov/m/dghr/ret/.

The Department of State Career Transition Center (CTC) suggests a year to complete departmental planning, arrange clearances (including medical), and process application for retirement. Department of State employees within five years of retirement eligibility and their spouses may take a four-day Retirement Planning Seminar through the CTC.

Another opportunity to address questions related to retirement is offered in the Regulations, Allowances, and Finances Workshop at the Transition Center. E-mail FSITCTraining@state.gov for more information.

Employees hired after January 1, 1984, participate in the new Foreign Service Pension System that requires employee contributions to Social Security and the Foreign Service Retirement Fund.

To retain Federal Employees Health Benefits (FEHB) and Federal Employees Government Life Insurance (FEGLI) after retirement, the employee must have had coverage for the five years prior to retirement or from the first possible opportunity to enroll. FEGLI declines in value after retirement unless the retiree pays increased premiums.

Federal employees have Medicare hospital insurance contributions deducted from pay, and may be covered under Medicare when they retire depending on their age and eligibility. Employees must apply for Medicare coverage.

Anyone who expects to apply for Social Security retirement benefits should ascertain far in advance of retirement the number of quarters of credit earned and the amount in the Social Security earnings record. Errors should be corrected before applying for benefits.

Individual Retirement Accounts (IRAs) are another source of retirement funds. They are available to employed persons even if they participate in another retirement plan. An unemployed spouse of an employed individual may also open an IRA, up to a limited amount. (IRAs are discussed in detail in the "Investments" section.)

Joining the Diplomatic and Consular Officers Retired (DACOR) and the American Foreign Service Association (AFSA) are good ways to keep up with friends and remain informed after retirement from the Foreign Service. The Associates of American Foreign Service Worldwide (AAFSW) is a very active group that includes many retired employees and spouses of retirees (male and female). Its Community Relations Committee can suggest opportunities for those interested in volunteer work in the community.

In the Washington area, many colleges and universities as well as private financial institutions sponsor retirement planning seminars that may be useful for learning about the financial and lifestyle adjustments that take place during retirement.

Foreign Service Pension System

The Foreign Service Pension System (FSPS) is a three-tiered federal retirement system: 1) Foreign Service Basic Annuity; 2) Social Security; and 3) Thrift Savings Plan. Each pay period, mandatory deductions are made from your salary and go to the Foreign Service Retirement Fund and to Social Security. After an initial waiting period, you may choose to contribute to the Thrift Savings Plan, the third tier of FSPS.

Foreign Service employees contribute 1.5 percent of basic salary each pay period to the Foreign Service Retirement Fund. This contribution is made only from the basic salary rate. Any overtime or differential pay is not included.

Foreign Service Basic Annuity

In addition to the Basic Annuity, employees who retire under FSPS with an immediate, unreduced annuity prior to age 62 will be eligible to receive an Annuity Supplement up until age 62. The amount will approximate the payable Social Security benefit based only on FSPS service.

Once an employee has at least 18 months of FSPS service s/he is vested for disability and survivor benefits under FSPS. An employee with 10 years of service is vested for survivor annuity under FSPS. A survivor can be a spouse, former spouse, or child/children.

Social Security and Medicare

Everyone, including children, should have a social security card. If you do not have one, you may apply for it overseas through the consular section of the U.S. Embassy or Consulate. In the United States, you must complete an "Application for Social Security Number Card" (Form SS-5, that you can request by telephone from any Social Security office) and take it in person to the nearest Social Security Office. If you are not a U.S. citizen, you must bring your green card and/or visa along with you. Processing takes four to six weeks.

In general, Foreign Service employees who entered the service before January 1, 1984, and participate in the Foreign Service Retirement and Disability System are not entitled to Social Security retirement benefits unless they or their spouses have acquired credits in the Social Security system through other employment. All employees in the Foreign Service Pension System (FSPS) have contributions to Social Security and the Foreign Service Pension System deducted from their pay.

Persons who have worked in jobs covered by Social Security (or who have paid Social Security taxes based on self-employment) and have acquired 40 quarters of Social Security credit are eligible to apply for Social Security retirement benefits when they become 62. Quarters are based per calendar year, but on the amount of income earned. This amount increases over time to match wage inflation. For any one year, no more than four quarters of credit are counted. This method of calculation is beneficial for family members engaged in part-time or temporary work. Such family members should be careful to report earnings and pay Social Security tax (on Schedule E of Form 1040) on all income. Even if you are eligible for the foreign-earned income exclusion from federal income tax, you should investigate paying Social Security tax as a self-employed person.

It is your responsibility to be sure that the income on which you have paid Social Security tax is accurately credited to your name. Send a “Request for Statement of Earnings” (Form SSA 7004, available at any Social Security office), or write a letter with your Social Security number, date of birth, all names you have used while employed, and your address to the Social Security Administration. Expect a wait of up to three months for the reply. If you discover an error in your record of earnings, file a “Request for Correction of Earnings Record” (Form SSA-7008). The earnings record you receive will not reflect earnings for the current year or previous year.

Retirement benefits are only one part of the Social Security system. Additionally, there are disability benefits and survivor’s benefits for qualifying workers and their family members.

The government pension offset causes a reduction in Social Security spouse’s or surviving spouse’s benefits for people who receive a pension based on their own work for federal, state, or local government that is not covered by Social Security. The offset does not affect benefits you would receive based on your own Social Security record but only those you would receive based on your spouse’s record. The offset is applied against two-thirds of the pension for people who first became eligible for a government pension after June 1983.

Anyone who is 65 and receives Social Security retirement benefits is automatically covered by Medicare, a federal health insurance program including both hospital insurance and medical insurance. Since January 1, 1983, federal government employees have had the Medicare hospital insurance portion of the Social Security tax deducted from pay. Federal employees are entitled to Medicare hospital insurance at age 65 provided they meet certain eligibility requirements, but they must apply for it. Under certain circumstances, the spouse and other family members of a federal employee may be entitled to Medicare hospital insurance as well.

The medical insurance portion of Medicare is optional and is available for a monthly premium. (Medicare hospital insurance can also be purchased by those who do not qualify to receive it as a benefit.) If you are eligible for Medicare, you should apply three months before your 65th birthday.

If you are eligible for both Medicare and Federal Employees Health Benefits (FEHB) health insurance, you should consult your agency’s health insurance officer or a representative of your FEHB plan to determine the options and regulations that apply to you.

Thrift Savings Plan

The Thrift Savings Plan is a long-term savings and investment program for federal employees designed to provide retirement income. After an initial waiting period (the length of which is determined by the date of hire), the employing agency will automatically begin to contribute each pay period an amount equal to one percent of basic salary to a Thrift Savings Plan account in the employee's name. This contribution does not come out of salary; it is an automatic agency contribution.

When the automatic agency contribution begins, the employee may also choose to begin contributing to his/her Thrift Plan account. This is an entirely voluntary contribution, whereas the Foreign Service Basic and Social Security are mandatory deductions. In 2003, FSPS employees may contribute up to 13 percent of basic salary each pay period up to a cap of $12,000 per year. The employing agency will make a matching contribution on a sliding scale for the first five percent that the employee contributes. If the employee chooses to contribute more than five percent there is no further agency matching.

There are two tax advantages to the Thrift Savings Plan. First, contributions to the Thrift Plan each pay period are on a before-tax basis. This means that the contribution is deducted from salary before income taxes are calculated, thereby reducing taxable income, and reducing the amount of tax owed. Second, the money contributed to the Thrift Plan account, along with all the earnings generated, is tax-deferred. No income tax is paid on this money until it is withdrawn from the Plan, usually after retirement.

Two Thrift Plan open seasons are held each year for employees to join the Plan, change the amount of contribution, or stop contributing altogether. There is a Loan Program set up within the Plan that allows loans of contributions and their earnings.

The size of the Thrift Savings account balance determines how it may be withdrawn. If the employee retires with an immediate annuity, s/he may choose one of the following: (a) receive a monthly annuity payment; (b) receive the account balance in a lump sum payment; (c) transfer the account balance to an IRA or other eligible retirement plan; or (d) leave the account balance in the Plan and defer payment (and taxes) until a later date. If the employee leaves federal employment before retirement with five years or more of service, s/he is limited to options (a), (c), or (d) described above. Employees with TSP accounts of less than $3,500 are limited to option (c) only.

Employees receive a Thrift Savings Plan booklet prior to the first opportunity to contribute to the plan. It contains detailed information about all aspects of the plan.

Civil Service Retirement Spouse Equity Act of 1984, Public Law 98-615

Public Law 98-615, the Civil Service Retirement Spouse Equity Act of 1984, dated November 8, 1984, and effective May 7, 1985, amends the Civil Service Retirement Law in several significant respects. It provides additional survivor election opportunities to retiring Civil Service employees and annuitants.

The major provisions of PL 98-615 applicable to Civil Service employees are as follows:

- Permit employees retiring on or after May 7, 1985, to elect survivor annuities for former spouses at and after retirement if the marriage is dissolved on or after May 7, 1985;
- Require OPM to comply with a qualifying court decree or order, that provides a survivor annuity for a former spouse from whom the employee or annuitant who retired on or after May 7, 1985, was divorced on or after May 7, 1985;
- Require the written consent of an employee's current spouse before that employee can elect an annuity without full survivor benefits;
- Require that an employee notify his or her current spouse and former spouses from whom s/he was divorced on or after May 7, 1985, when applying for a refund of retirement contributions;
- Bar payment of refund or retirement contributions if a qualifying court order or decree provides for annuity payments to a former spouse;
- Change to 55 the age at which certain survivor annuitants (spouse died in service or retired on or after May 7, 1985) can remarry without losing benefits;
- Change the marriage duration requirement for widows/widowers to nine months when the employee dies in service or retires on or after May 7, 1985 (formerly one year);
- Allows married employees in good health to elect, at time of retirement, an "insurable interest" survivor annuity in addition to survivor annuity provided for a current or former spouse (formerly available only to unmarried employees);
- Provides Federal Employees Health Benefits coverage to certain former spouses of employees and annuitants whose marriage was dissolved on or after May 7, 1985.

Detailed information regarding the above provisions is available from the U.S. Office of Personnel Management (OPM) (http://www.opm.gov/).

RESOURCES

Career Transition Center
Transition Center
Foreign Service Institute
4000 Arlington Boulevard
Arlington, VA
Tel: (703) 302-7407
Website: http://www.state.gov/m/fsi/tc

Office of Retirement
Room H620, SA-1
Department of State
Washington, DC 20520
Website: http://www.state.gov/m/dghr/ret/

American Association of Retired People (AARP)
601 E Street NW
Washington, DC 20049
Tel: (202) 434-2277
Website: http://www.aarp.org

American Foreign Service Association (AFSA)
2101 E Street NW
Washington, DC 20005
Tel: (202) 647-8160
(202) 338-4045
(Retiree dues based on retired income)
Website: http://www.afsa.org

Associates of American Foreign Service Worldwide (AAFSW)
Attn. Community Relations Committee
5125 MacArthur Boulevard NW, Suite 36
Washington, DC 20016
Tel: (202) 362-6514
Website: http://www.aafsw.org

Diplomatic and Consular Officers Retired (DACOR)
1801 F Street NW
Washington, DC 20006
Tel: (202) 682-0500
Website: http://www.dacorbacon.org
(Nonprofit association of retired and active diplomatic and consular officers with associate membership for Foreign Service widows)

National Council on the Aging
409 3rd Street SW
Washington, DC 20024
Tel: (202) 479-1200
Website: http://www.ncoa.org

Washington Consumers' Checkbook
Center for the Study of Services
733 15th Street NW, Suite 820
Washington, DC 20005
Tel: (202) 347-7283
Website: http://www.checkbook.org

IRS Forms Distribution Center
P.O. Box 25866
Richmond, VA 23260
Tel: (800) 829-3676
Website: http://www.irs.gov

Social Security Administration
Referral toll-free number: (800) 772-1213
Website: http://www.ssa.gov

They take requests for information and provide referrals on SSI, Medicare, Retirement, Disability, and many other subjects. Field Offices with 800 numbers are distributed throughout the United States. If you state subject or concern, they will suggest an appropriate publication.

Thrift Savings Plan Service Office
Tel: (504) 255-6000 (TSP Inquiry Line)
Website: http://www.tsp.gov

The Thrift Savings Plan Service Office is the primary contact for participants who have left federal service. The TSP Service Office also handles loans, withdrawals, and interfund transfers.

Thrift Savings Plan Publications

The following publications are available from your agency's office of Human Resources:

- Summary of the Thrift Savings Plan for Federal Employees
- Open Season Update (published every six months)
- Thrift Savings Plan Loan Program
- Withdrawing Your TSP Account Balance
- Thrift Savings Plan Annuities
- C, F, G, S, and I Fund Monthly Returns
- Calculating Participant Earnings on Thrift Savings Plan Investments
- The Thrift Savings Plan and IRAs